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July 25, 2003

Chairman Deborah Taylor Tate
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Via Electronic Mail and Hand Delivery

Aster Adams
Chief, Economic Analysis and Market Monitoring Division
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

**Re: *Joint Petition of Tennessee-American Water Company and Marion County,
Tennessee for Approval of Purchase Agreement, Docket No. 03-00388***

Dear Chairman Tate:

We are filing with the docket office today an original and thirteen copies of the response by Petitioners Tennessee-American Water Company and Marion County, Tennessee to the Authority Staff's First Data Request sent by Mr. Aster Adams on July 16, 2003. A courtesy copy of this filing has also been sent today to the listed recipients via electronic mail.

As their response to the data request, Petitioners Tennessee-American Water Company and Marion County, Tennessee, answer as follows:

Q.1. Has the proposed purchase agreement been approved by all necessary representatives of Marion County?

A.1. Yes, the Agreement was executed by Howell Moss, County Executive of Marion County as authorized by a Resolution of the County Commission duly adopted and recorded at a meeting held on the 22nd day of February 1999.

Q.2. What is TAWC's reason for proposing to adopt the current rate structure for the Suck Creek System?

A.2. As the Suck Creek System will initially be operated as a separate and distinct system, TAWC is adopting the current rates in effect for the Suck Creek System in order to cover the costs of operating the system. In time, as the Suck Creek System expands, it is likely that TAWC will petition the TRA to combine the

Suck Creek System with the TAWC system, but initially, revenues and expenses for the Suck Creek System will be kept separate from the remainder of TAWC's system so as to not adversely impact the rates of current TAWC ratepayers.

- Q.3.** Why are the application fees in the rate structure different for renters and homeowners?
- A.3.** Historically, in the Suck Creek System, renters, as a general class of customer, have been more prone to leaving the final bill unpaid than have homeowners. This differential in the application fee has served to offset losses due to uncollected accounts.
- Q.4.** Please provide the rate base currently in use for the Suck Creek System, as well as the accounting records supporting the value of the rate base.
- A.4.** The proposed journal entry to record the acquisition of the Suck Creek System by TAWC is filed along with this response in an Excel file identified as Suck Creek Exhibit 4A. The Annual Financial Report for the year ended December 31, 2002 for the Suck Creek Utility District is filed along with this response in an imaged document identified as Suck Creek Exhibit 4B.
- Q.5.** If TAWC is to purchase the Suck Creek System, why is it necessary for TAWC to execute an Operations and Maintenance Agreement ("O&M") with Marion County?
- A.5.** Suck Creek Utility District was desirous of getting out of the water business and transferred its assets to Marion County. The County likewise had no interest in remaining in the water business. The primary reason for executing the O&M Agreement was so that TAWC could take over the operation of the system until such time as the purchase could be finalized.

There was also another major factor involved in this decision. Time was literally of the essence in the execution of the O&M Agreement with Marion County to operate and maintain the Suck Creek System. Marion County is contributing \$500,000 in Community Development Block Grant funds ("CDBG Funds") to pay a portion of the cost of constructing the facilities necessary to connect the Suck Creek system to the Lone Oak Utility District System in Sequatchie County. If construction on the connector line had not begun by June 30, 2003, the County was in jeopardy of losing the CDBG funds. By entering into a long-term (40-year) O&M Agreement, TAWC was able to invest in this connector line prior to final approval of the Purchase Agreement.

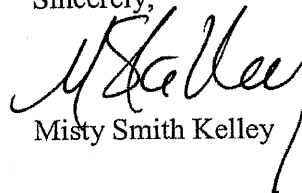
TAWC's total investment in the connector line and control systems is estimated to be \$334,000.

- Q.6.** Does TAWC's stated intention to keep all revenues and expenses separate from its other operations mean that the Suck Creek System will also be kept separate for ratemaking purposes?
- A.6.** Initially, yes. Over time, as the Suck Creek System expands, we will likely petition the TRA to have one set of rates for all TAWC customers, and then combine the revenues and expenses of the Suck Creek System into the TAWC system.
- Q.7.** Is it necessary to the provision of quality water service to the Suck Creek System customers to connect the system to the Lone Oak Utility District in Sequatchie County, Tennessee, or is this a convenience? If it is a convenience, are funds from the Community Development Block Grant properly used to execute it? How much of the combined interconnection investment is expected to be reflected in the Suck Creek System's rate base?
- A.7.** It is a necessity and not a convenience to the provision of quality water service to the Suck Creek System to connect the system to the Lone Oak Utility District. The Suck Creek System currently serves its customers from three wells, which have in past years experienced inadequate capacity during drought conditions. Because of this, the Tennessee Department of Environment and Conservation ("TDEC") has placed a moratorium on additional connections to the system until a more reliable water source is secured. Once the interconnection is complete, the Suck Creek System needs can be supplied entirely through the adjacent Lone Oak Utility District and as a result a reliable source of water will be made available to present and future customers.

It is expected that \$334,000 in TAWC funds used to complete the interconnection and provide control and telemetry systems will be reflected in the rate base of the Suck Creek System.

Please do not hesitate to contact me if you have any questions about this filing.

Sincerely,



Misty Smith Kelley

MSK:klc
Enclosures

Chairman Deborah Taylor Tate

Aster Adams

July 25, 2003

Page 4

cc: Russell Perkins (via electronic mail)
J. Harvey Cameron (via electronic mail)
William L'Ecuyer (via electronic mail)
Coleman Bush (via electronic mail)

**SUCK CREEK UTILITY DISTRICT
ASSET DETAIL**

<u>Property Description</u>	<u>Utility Plant Account</u>	<u>Date in Service</u>	<u>Cost</u>	<u>Prior Years Depreciation</u>	<u>Current Depreciation</u>	<u>Net Book Value @12/31/02</u>	<u>Method</u>	<u>Period</u>
Water Plant & Building	304	7/1/1992	\$303,709	\$63,060	\$6,074	\$234,574	SL	50
Treatment Equipment	320	7/1/1992	\$61,727	\$12,818	\$1,235	\$47,675	SL	50
Well Drilling	305	7/1/1992	\$47,982	\$9,963	\$960	\$37,059	SL	50
Water Tank	305	7/1/1992	\$188,225	\$39,082	\$3,765	\$145,379	SL	50
Water Lines & Services	331	7/1/1992	\$587,396	\$121,962	\$11,748	\$453,686	SL	50
Control Sub-total			\$1,189,039	\$246,885	\$23,781	\$918,373	SL	50
Pump	311	2/2/1994	\$950	\$950	\$0	\$0	SL	5
Transmitter	346	6/24/1999	\$800	\$400	\$160	\$240	SL	5
Circular Chart Recorder	346	6/28/2000	\$1,190	\$357	\$238	\$595	SL	5
Level Transmitter	346	8/30/2000	\$1,638	\$489	\$328	\$821	SL	5
10 HP Pump	311	10/17/2000	\$8,995	\$2,699	\$1,799	\$4,497	SL	5
Additions	331	12/31/1997	\$3,600	\$405	\$90	\$3,105	SL	40
New Well & Line	305	9/30/1998	\$22,772	\$1,992	\$569	\$20,211	SL	40
1000 Foot Addition	331	5/11/1999	\$3,695	\$230	\$92	\$3,373	SL	40
New Equipment	340	3/1/2002	\$9,876	\$0	\$648	\$9,228	SL	15
Control Sub-total			\$53,516	\$7,522	\$3,925	\$42,069		
Total Fixed Assets			\$1,242,555	\$254,407	\$27,705	\$960,443		



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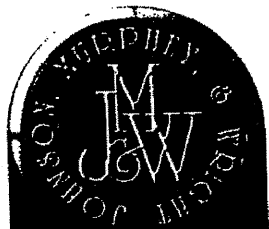
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SUCK CREEK UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2002



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DECEMBER 31, 2002**

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Brian T. Wright, CPA

Karen Hutcherson, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Suck Creek Utility District
Chattanooga, Tennessee

We have audited the accompanying financial statements of Suck Creek Utility District of Marion and Hamilton Counties, Tennessee, as of and for the year ended December 31, 2002, as listed in the Table of Contents. These financial statements are the responsibility of Suck Creek Utility District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Suck Creek Utility District, as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2003, on our consideration of Suck Creek Utility District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of Suck Creek Utility District taken as a whole. The accompanying schedules listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements of Suck Creek Utility District. Such supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Chattanooga, Tennessee
January 6, 2003

Johnson, Murphey & Wright, P.C.

SUCK CREEK UTILITY DISTRICT
BALANCE SHEET
DECEMBER 31, 2002

ASSETS**Current Assets**

Cash	\$ 15,843
Accounts receivable - net	8,950
Prepayments	<u>1,069</u>
Total current assets	<u>25,862</u>

Fixed Assets

Property, plant and equipment	1,242,555
Less: accumulated depreciation	<u>(282,112)</u>
Net fixed assets	<u>960,443</u>

TOTAL ASSETS

\$ 986,305

LIABILITIES AND FUND EQUITY**Current Liabilities**

Accounts payable	\$ 4,714
Current maturities of long-term debt	2,327
Other current liabilities	<u>589</u>
Total current liabilities	<u>7,630</u>

Non-current Liabilities

Long-term debt	<u>151,316</u>
----------------	----------------

Total liabilities

158,946

Fund Equity

Contributed capital	823,051
Retained earnings - unreserved	<u>4,308</u>
Total fund equity	<u>827,359</u>

TOTAL LIABILITIES AND FUND EQUITY

\$ 986,305

The accompanying notes are an integral part of the financial statements.

SUCK CREEK UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 2002

OPERATING REVENUES

Water sales	\$ 75,835
Customer penalties	2,861
Other operating	<u>4,191</u>
Total operating revenues	<u>82,887</u>

OPERATING EXPENSES

Operating and maintenance	59,674
Administrative and general	13,638
Depreciation	27,705
Bad debts	<u>94</u>
Total operating expenses	<u>101,111</u>

Total operating (loss) (18,224)

NON-OPERATING REVENUES (EXPENSES)

Interest revenue	113
Interest expense	<u>(9,473)</u>
Total non-operating revenues (expenses)	<u>(9,360)</u>

Net loss before add back of depreciation of
fixed assets acquired with grants (27,584)

Depreciation on fixed assets acquired with grants 20,880

(Decrease) in retained earnings (6,704)

Retained earnings - beginning of year 11,012

Retained earnings - end of year \$ 4,308

The accompanying notes are an integral part of the financial statements.

SUCK CREEK UTILITY DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2002
 Increase (Decrease) in Cash

Cash Flows from Operating Activities	
Operating (loss)	<u>\$(18,224)</u>
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation	27,705
Change in assets and liabilities:	
(Increase) in prepayments	(1,069)
Decrease in receivables	24
Increase in accounts payable and other liabilities	79
Total adjustments	<u>26,739</u>
Net cash provided by operating activities	<u>8,515</u>
 Cash Flows from Capital and Related Financing Activities	
Purchase of equipment	(9,876)
Principal paid on notes	(1,819)
Interest paid on revenue bonds	<u>(9,473)</u>
Net cash (used) by capital and related financing activities	<u>(21,168)</u>
 Cash Flows from Investing Activities	
Net change in investments	12,436
Interest revenue	<u>113</u>
Net cash provided by investing activities	<u>12,549</u>
 Net (decrease) in cash	(104)
 Cash - beginning of year	<u>15,947</u>
 Cash - end of year	<u>\$ 15,843</u>

The accompanying notes are an integral part of the financial statements.

**SUCK CREEK UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Suck Creek Utility District of Marion and Hamilton Counties, Tennessee (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) the accepted standard-setting body for establishing governmental accounting and reporting principles. The following is a summary of the more significant accounting policies.

A. Organization

The District was created by joint orders entered by the County Executives of Marion and Hamilton Counties on November 3, 1973, with a subsequent extension on July 20, 1989, pursuant to TCA 7-82-101, etc. seq. The District is under the direction of a three-member board of commissioners.

B. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP and GASB issued statement No. 14, *The Financial Reporting Entity*. This statement requires that the financial statements present the Suck Creek Utility District (the primary government) and any component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting one of the following criteria; the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board and the primary government is able to impose its will upon the potential component unit), or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government.

Based on the foregoing criteria, the financial statements of the District includes all entities over which they exercise oversight responsibility. There are no additional entities which meet the above criteria for inclusion in the District's financial statements.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The District's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The financial statements are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Unbilled service receivables are recorded at year-end. The reserve method is used to estimate the allowance for doubtful accounts.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**D. Fund Accounting**

The Suck Creek Utility District, a proprietary fund, accounts for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

E. Cash

For purposes of reporting cash flows, cash includes amounts in demand deposits and all highly liquid investments with a maturity of three months or less and are classified on the balance sheet as "cash." At December 31, 2002 the District had no cash equivalents.

F. Restricted Assets

Certain resources set aside for revenue bonds repayment are classified as restricted assets - debt service funds, investments on the balance sheet because their use is limited by applicable bond covenants. The assets include bond and interest sinking funds, which are used to segregate resources accumulated for debt service payments.

G. Fixed Assets

All purchased fixed assets are valued at historical cost. Donated fixed assets are valued at their estimated fair value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Upon disposal of fixed assets, the accounts are relieved of the related costs and accumulated depreciation, and resulting gains or losses are reflected in income. Depreciation is computed using the straight-line method over the asset's estimated useful life.

Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

H. Compensated Absences

All employees are paid on an hourly basis for only the hours worked. Therefore, there is no liability for compensated absences.

I. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current year-end, are recorded as prepaid expenses.

J. Contributed Capital

The amounts received for tapping and extension charges are not refundable, and are recorded as revenue. Prior capital grants are depreciated in accordance with accounting principles generally accepted in the United States of America.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**K. Proprietary Accounting and Financial Reporting**

Such Creek Utility District has applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB) as well as those Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH

At December 31, 2002, the carrying amount of the District's deposits was \$15,843 and the bank balance was \$14,980. The entire bank balance was covered by federal depository insurance and consists of the following:

Cash	<u>\$ 15,843</u>
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Investments are reported at market value, which approximates costs.

NOTE 3 - ACCOUNTS RECEIVABLE - NET

Receivables at December 31, 2002 consist of the following:

Accounts receivable - customers	\$ 12,786
Less: allowance for doubtful accounts	<u>(3,836)</u>
Accounts receivable - net	<u>\$ 8,950</u>

Bad debt expense for the year ended December 31, 2002 was \$94.

NOTE 4 - FIXED ASSETS

Fixed assets at December 31, 2002 consist of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>
Water mains	\$ 30,066	\$ 3,380
Water plant and lines	<u>1,212,489</u>	<u>278,732</u>
Total	<u>\$ 1,242,555</u>	<u>\$ 282,112</u>

Depreciation expense was \$27,705 for the year ended December 31, 2002.

The following estimated useful lives are used to compute depreciation:

<u>Asset</u>	<u>Years</u>
Water mains, plant and lines	5-50

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

	Balance December 31, 2001	Additions	Deletions	Balance December 31, 2002
Waterworks revenue bond, original issue \$170,000 dated July 9, 1992, at 5.875% interest. The bond was payable beginning July 9, 1993, in 443 monthly installments maturing on May 9, 2030.	<u>\$155,462</u>	<u>\$0</u>	<u>\$1,819</u>	\$153,643
Less: due within one year				<u>2,327</u>
Due after one year				<u>\$151,316</u>

Annual requirements to amortize bond debt including interest of \$155,489 are as follows:

<u>Year ending</u>	\$ 11,292
12-31-03	11,292
12-31-04	11,292
12-31-05	11,292
12-31-06	11,292
12-31-07	<u>252,672</u>
Thereafter	<u>\$ 309,132</u>

Interest expense was \$9,473 for the year ended December 31, 2002.

NOTE 6 - CHANGES IN CONTRIBUTED CAPITAL

Changes in contributed capital consists of the following:

Balance - beginning of year	\$ 843,931
Less: Amortization of depreciation on fixed assets acquired with grants	<u>(20,880)</u>
Balance - end of year	<u>\$ 823,051</u>

NOTE 7 - COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS

The expenses of the District exceeded revenues by \$27,584, but the District has a retained earnings of \$4,308. Three consecutive losses will subject the District to the Utility Management Review Board.

This District does not maintain an operations and maintenance account at a sufficient amount as required by its bond resolutions.

NOTE 8 - COMMERCIAL INSURANCE

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, and worker's compensation. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 9 - CONTINGENT LIABILITIES AND LITIGATION

As of December 31, 2002, the District does not have any material contingent liabilities and is not involved in any litigation that would have a material effect on the District's financial condition.

**SUCK CREEK UTILITY DISTRICT
SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
ASSETS		
Current Assets		
Cash		
Accounts receivable - net	\$ 15,843	\$ 15,947
Prepayments	8,950	8,974
Total current assets	<u>1,069</u>	<u>8,974</u>
	<u>25,862</u>	<u>24,921</u>
Restricted Assets		
Debt service funds - investments		<u>12,436</u>
Fixed Assets		
Property, plant and equipment	1,242,555	1,232,679
Less: accumulated depreciation	(282,112)	(254,407)
Net fixed assets	<u>960,443</u>	<u>978,272</u>
TOTAL ASSETS	<u>\$ 986,305</u>	<u>\$ 1,015,629</u>
LIABILITIES AND FUND EQUITY		
Current Liabilities		
Accounts payable	\$ 4,714	\$ 4,771
Current maturities of long-term debt	2,327	2,195
Other current liabilities	589	453
Total current liabilities	<u>7,630</u>	<u>7,419</u>
Noncurrent Liabilities		
Long-term debt	151,316	153,267
Total liabilities	<u>158,946</u>	<u>160,686</u>
Fund Equity		
Contributed capital	823,051	843,931
Retained earnings - unreserved	4,308	11,012
Total fund equity	<u>827,359</u>	<u>854,943</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 986,305</u>	<u>\$ 1,015,629</u>

SUCK CREEK UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
Operating Revenues		
Water sales		
Customer penalties	\$ 75,835	\$ 73,645
Other operating	2,861	3,023
Total operating revenues	<u>4,191</u>	<u>2,343</u>
	<u>82,887</u>	<u>79,011</u>
Operating Expenses		
Operating and maintenance	59,674	54,811
Administrative and general	13,638	7,101
Depreciation	27,705	27,057
Bad debts	94	553
Total operating expenses	<u>101,111</u>	<u>89,522</u>
Total operating (loss)	<u>(18,224)</u>	<u>(10,511)</u>
Non-operating Revenues (Expenses)		
Interest revenue	113	662
Interest expense	(9,473)	(9,257)
Total non-operating revenues (expenses)	<u>(9,360)</u>	<u>(8,595)</u>
Depreciation on fixed assets acquired with grants	<u>20,880</u>	<u>20,880</u>
Increase (decrease) in retained earnings	(6,704)	1,774
Retained earnings - beginning of year	11,012	9,238
Retained earnings - end of year	<u>\$ 4,308</u>	<u>\$ 11,012</u>

SUCK CREEK UTILITY DISTRICT
SCHEDULE OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
Operating and Maintenance		
Cost of water		
Fuel and power	\$ 5,446	\$ 7,579
Supplies and maintenance - filter plant	<u>7,483</u>	<u>8,330</u>
Total cost of water	12,929	15,909
Payroll - water system	30,792	26,707
Payroll taxes	3,227	2,671
Water system supplies and expense	12,726	8,258
Truck expense	<u>1,266</u>	<u>1,266</u>
Total operating and maintenance	<u>\$ 59,674</u>	<u>\$ 54,811</u>
Administrative and General		
Insurance - general	\$ 3,312	\$ 1,312
Office supplies and expenses	486	785
Professional services	8,547	4,279
Telephone	<u>1,293</u>	<u>725</u>
Total administrative and general	<u>\$ 13,638</u>	<u>\$ 7,101</u>

SUCK CREEK UTILITY DISTRICT
SCHEDULE OF ADDITIONS AND RETIREMENTS TO THE UTILITY PLANT AND ACCUMULATED DEPRECIATION
YEAR ENDED DECEMBER 31, 2002

	Utility Plant in Service			Accumulated Depreciation		
	Balance 12-31-01	Additions	Retirements	Balance 12-31-01	Additions	Retirements
Water mains	\$ 30,066	\$ —	\$ —	\$ 2,628	\$ 752	\$ —
Water plant and lines	<u>1,202,613</u>	<u>9,876</u>	<u>—</u>	<u>251,779</u>	<u>26,953</u>	<u>278,732</u>
Total	<u>\$1,232,679</u>	<u>\$ 9,876</u>	<u>\$ 0</u>	<u>\$ 254,407</u>	<u>\$ 27,705</u>	<u>\$ 282,112</u>

**SUCK CREEK UTILITY DISTRICT
SCHEDULE OF INSURANCE COVERAGE
DECEMBER 31, 2002**

<u>Type of Coverage</u>	<u>Effective Dates</u>	<u>Amount of Coverage</u>
Commercial General Liability Coverage and Crime Coverage		
Each occurrence limit	12/18/02-03	\$ 1,000,000
General aggregate limit	12/18/02-03	\$ 3,000,000
Products - completed operations aggregate limit	12/18/02-03	\$ 3,000,000
Employee benefits liability	12/18/02-03	\$ 1,000,000
Fire damage legal liability	12/18/02-03	\$ 50,000
Medical expense limit (any one person)	12/18/02-03	\$ 5,000
Building - filter plant	12/18/02-03	\$ 348,300
Tank	12/18/02-03	\$ 76,500
Employee dishonesty	12/18/02-03	\$ 100,000
Workers compensation		
Each accident	12/18/02-03	\$ 500,000
Each employee/disease	12/18/02-03	\$ 500,000
Policy limit/disease	12/18/02-03	\$ 500,000

SUCK CREEK UTILITY DISTRICT
SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS
WATERWORKS SYSTEM IMPROVEMENT REVENUE BONDS, DATED JULY 9, 1992

ORIGINAL ISSUE \$170,000

<u>Year ended</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Payments</u>
2003	\$ 2,327	\$ 8,965	\$ 11,292
2004	2,468	8,824	11,292
2005	2,617	8,675	11,292
2006	2,775	8,517	11,292
2007	2,942	8,350	11,292
2008	3,120	8,172	11,292
2009	3,308	7,984	11,292
2010	3,508	7,784	11,292
2011	3,719	7,573	11,292
2012	3,944	7,348	11,292
2013	4,182	7,110	11,292
2014	4,434	6,858	11,292
2015	4,702	6,590	11,292
2016	4,986	6,306	11,292
2017	5,287	6,005	11,292
2018	5,606	5,686	11,292
2019	5,944	5,348	11,292
2020	6,303	4,989	11,292
2021	6,683	4,609	11,292
2022	7,087	4,205	11,292
2023	7,515	3,777	11,292
2024	7,968	3,324	11,292
2025	8,449	2,843	11,292
2026	8,959	2,333	11,292
2027	9,500	1,792	11,292
2028	10,073	1,219	11,292
2029	11,057	235	11,292
2030	4,180	68	4,248
	<u>\$153,643</u>	<u>\$155,489</u>	<u>\$309,132</u>

**SUCK CREEK UTILITY DISTRICT
SCHEDULE OF CURRENT UTILITY RATES
DECEMBER 31, 2002**

Water rates as of December 31, 2002 were as follows:

Minimum of \$22.85 for first 1,000 gallons	
Next	8,000 gallons for \$4.40 per 1,000 gallons
All over	9,000 gallons for \$3.30 per 1,000 gallons

At December 31, 2002 the District had 186 customers.



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Suck Creek Utility District
Chattanooga, Tennessee

We have audited the financial statements of Suck Creek Utility District, as of and for the year ended December 31, 2002, and have issued our report thereon dated January 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Suck Creek Utility District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 02-1 and 02-2.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Suck Creek Utility District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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(423) 755-7634

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Board of Commissioners
Suck Creek Utility District
Page Two

This report is intended for the information of the Board of Commissioners, management and federal awarding agencies and the Comptroller of the Treasury of the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Chattanooga, Tennessee
January 6, 2003

Johnson, Murphy & Wright, P.C.

**SUCK CREEK UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2002**

SUMMARY OF AUDIT RESULTS

Opinion:

Unqualified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Reportable Conditions:

None disclosed

Material Noncompliance:

No material noncompliance was disclosed, however, two non-material instances of noncompliance were noted.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE
REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING
STANDARDS**

COMPLIANCE:

Finding 02-1 - Insufficient "Operations and Maintenance Fund" (Repeat 01-1)

Criteria:

The District's Bond Resolution requires the District to maintain an "Operations and Maintenance Fund" equal to one-fourth of the amount budgeted for current expenses.

Condition found:

The District does not maintain a sufficient amount in its "Operations and Maintenance Fund" as required by its bond resolutions.

Recommendation:

To comply with its bond resolutions, the District should maintain the required amount.

View of Management:

We concur. When funds become available, we will make every effort to maintain the required amount in our "Operations and Maintenance Fund."

SUCK CREEK UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
DECEMBER 31, 2002

COMPLIANCE: (Continued)

Finding 02-2 - Utility District Operating at a Net Loss (Repeat 01-2)

Criteria:

Tennessee Code Annotated, Section 7-82-403, states that the District should not operate at a loss.

Condition found:

The District has a net loss before the add back of depreciation of fixed assets acquired with grants. This is a violation of Section 7-82-403, Tennessee Code Annotated.

Recommendation:

To help meet the cost of repairs and future expansions, the board of commissioners should take appropriate action to operate with a net income.

View of Management:

We concur.

**SUCK CREEK UTILITY DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002**

PRIOR AUDIT FINDINGS

COMPLIANCE

Finding 01-1 - Insufficient "Operations and Maintenance Fund"

Still in effect.

Finding 01-2 - Utility District Operating at a Net Loss

Still in effect.